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Put your MRO suppliers to work

Japanese philosophy powers purchasing at NUMMI

There's more to a "supplier" than selling

PurchasingWorld®

Helping you manage the business of buying

October 1987 Vol. 31 No. 10

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PW PREDICTS

Roberts S. Reichard, executive editor

Price pessimism on the wane

Most signs now suggest that industrial price inflation will remain within modest bounds. Some of the more recent evidence to support this thesis:

■ **Buyer surveys:** The latest N.A.P.M. Business Survey Committee report finds that most respondents do not expect prices to increase significantly over the remainder of the year. And a *PurchasingWorld* survey, which zeros in on office equipment suggests that this sector will show only a 2% or slightly higher advance over the next 12 months.

■ **Econometric forecasts:** A new Data Resources Inc. (DRI) rundown also indicates modest increases in most sectors—for 1987, 1988 and 1989. Not one of the 24 product areas monitored in this study is expected to sport more than a 6% annual boost.

■ **Oil price trends:** Fear of a continuing runup have faded. The Department of Energy assumes only a $19/bbl crude oil price over the next 12 months—and even this may be high. Overproduction could force tags to fall to $16/bbl by yearend or early 1988. Such a decline would almost certainly have positive price repercussions in such oil-dependent industries as petrochemicals and plastic resins.

■ **Rising interest rates:** Today's somewhat higher borrowing costs could put a damper on inflationary pressures. Signs of the times: Increases in both the Federal Reserve discount and prime borrowing rates. The latter has moved up four times this year—bringing this key indicator to the highest point in a year and a half. And there are some who think another .5% advance in the prime rate may be in the making before the year is over.

■ **Big manufacturing productivity gains:** Newly revised figures show factory efficiency rising at a 4.9% annual rate in the 2Q. This jump shows that any rise in output can now be quickly translated into higher productivity. These gains are also being aided by a modest revival in capital spending for new machinery.

Also holding costs (and thus prices) in check has been the surprisingly modest rise in pay raises. In real terms, the average U.S. worker is now earning no more than he did a year ago. One thing is sure, job insecurity (engendered by the fear that a firm will close a plant and move the operation elsewhere) has undoubtedly helped moderate worker demands.

Other current restraints on wage boosts include less reliance on cost-of-living clauses (only 38% of workers covered by major union agreements currently have such clauses) and the rising use of cash bonuses in lieu of fixed wage increases. Remember that these bonuses can disappear in hard times and they are not counted in a worker's fixed pay—thereby slowing down increases in base wages and hence fringe benefits.

All the above suggest that earlier projections for accelerating industrial price rises may have been overly pessimistic. Right now *PurchasingWorld* equations are pointing to a 3.5-4% increase in this key inflation yardstick over the next year.

Nor is this basically non-inflationary outlook limited to only the U.S. A new Organization for Economic Cooperation and Development study projects only a 3.75% West European inflation rate this year. And an even smaller 3.5% increase is seen for 1988.

In short, there's little on the horizon to suggest a major rise in the domestic or global inflation pace. And that goes for 1988 as well.

Selected price changes through 1987

(Comparison of fourth quarter pricing)

	% change		
PRODUCT LINE	1987	1988	1989
Raw materials, energy			
Middle distillates	34.4	2.6	6.4
Industrial chemicals	12.4	−0.5	1.1
Supplies for manufacturing	2.4	3.7	4.1
Intermediate materials (ex. food)	4.7	2.8	3.7
Metals			
Steel mill products	1.9	4.3	4.2
Carbon steel plates	6.0	2.5	3.4
Primary aluminum	4.3	2.1	2.7
Secondary nonferrous metals	10.7	−1.9	1.6
Pig lead	28.4	−6.8	0.9
Copper & brass mill shapes	6.6	0.8	2.5
Components			
Rubber & plastic products	2.1	2.8	2.2
Laminated plastic sheets	0.4	2.1	3.5
Corrugated boxes	8.9	1.5	2.7
Foundry & forge shop products	2.3	4.4	4.1
Fabricated structural metal products	1.8	2.6	3.8
Electronic components	0.7	4.5	6.0
Construction			
Paint materials	9.7	6.2	4.3
Concrete rebars	−0.8	5.1	4.9
Hardware	2.3	3.6	2.9
Wiring devices	2.2	4.5	5.8
Insulation materials	1.7	3.4	4.7
Machinery			
General purpose machinery	1.6	3.6	4.0
Oil & gas field machinery	0.8	4.6	3.9
Trucks (over 10,000 lb.)	1.6	4.7	5.6

Source: Data Resources, Inc., 1987 Forecasting Services

Machine tools

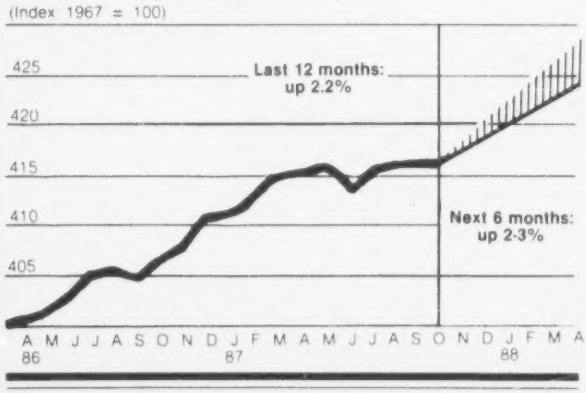
CURRENT SITUATION: Buyers are still calling the shots—as demand lags and overseas competition persists. Not even the voluntary restraint agreements (VRAs) signed last year have had much effect—mostly because of the substantial overseas inventory pileup. Government import price indexes do suggest some firming, but more often, they are unable to pick up all the current price shading.

DEMAND: New orders probably won't hit last year's $2.1 billion level. Credit continuing foreign competition (overseas producers had 49% of the 1986 market) and shrinking markets in such key areas as autos, aerospace, construction, and farm equipment. Other demand inhibitors: 1) manufacturers are generally requiring less metal cutting 2) new computerized machines frequently replace a half dozen older ones. **Two bright spots: A recent increase in the customer inquiries and the somewhat better export demand in the past few months.**

SUPPLY: Excess capacity continues. One recent estimate puts current tool demand at well under 50% of production potential. **Several Japanese outfits are opening assembly plants in the U.S.**—because of import restraints and the higher Japanese yen. Many European firms have bought U.S. machine tool builders, which now assemble the parent firm's tools as well as their own. **Finally, VRAs may not work.** Only Japan, South Korea, and Taiwan have signed such pacts and even if they do work, domestic operating rates probably won't exceed 60% for a while.

PRICE OUTLOOK: Near-term increases will be quite modest. Supply-demand imbalances should persist. And foreign sellers are still paring built-up inventories. **Best bet: A slow price increase of 2-3% in the next six months.** For 1988 and 1989, tags should rise in line with general inflation at 2-3% annually.

Metal cutting machine tool prices



Aliphatic organic chemicals

Be prepared for scattered increases as these chemicals move up the price ladder: propylene glycol, where a 3¢/lb boost has pushed distributor tags up into the 36-40¢/lb range; acetone which has moved up 1¢/lb (to 24¢/lb); ethylene oxide which is up 3-4¢/lb; 1,1,1 trichloroethane also up 3¢/lb; and methanol which advanced 2¢/lb in September with a similar advance to 38¢/lb scheduled for the current month.

Freight

Higher motor carrier rates are shaping up for this quarter as several trucking conferences announce new boosts running in the 3-4.5% range. Although discounting is likely to continue, it should be off these new higher listings. Behind the move: a profitless industry because of rate wars. In recent quarters, for example, many firms report operating ratios (expenses as a share of revenues) above 100%. And one rate bureau shows that for a whole year, half of its members spent more than they were able to take in.

Computers

Competitive pressures persist. The latest move involves the introduction of a cheaper, more powerful MicroVAX minicomputer by DEC—which could force price adjustments by IBM and other minicomputer makers. The firm also recently slashed 30% off the price of an entry level terminal in a move to halt inroads by DEC-compatibles. Meanwhile, substantial discounting is now being reported on IBM's new Personal System/2 lines—with anywhere from 19-32% being shaved off the PS/2-60, PS/2-50, and the PS/2-30 models.

Polystyrene

Prices have slipped about 1¢/lb (to near 52¢/lb for the general purpose/crystal grade)—but only because of recent declines in styrene feedstock costs. The impact grade has also softened a bit—fetching only 55¢/lb at last report (vs. 55-58¢/lb this summer). Demand in the meantime remains quite brisk. Sales are expected to be up 5-10% this year. Supplies also suggest a strong market. The industry should operate at 88% of its rated capacity this year—compared to only 80% in 1986. Even higher levels are projected for 1988 as only about 2-3% is added onto overall industry potential.

Polystyrene prices

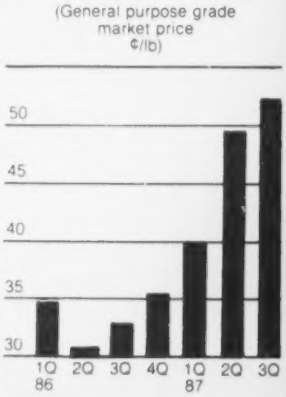


Image processing

You'll be hearing a lot about commercial image processing systems in the years ahead. Real gains, says a new Frost & Sullivan study, will be in the double-digit range through the early 1990s. Artificial vision (growing 19.3% a year) will spearhead the advance—thanks to increased use in 1) security and surveillance fields, 2) industrial inspection, and 3) automated factories for robotic vision and object sorting. Another big growth area: graphic arts—including optical scanning.

Steel

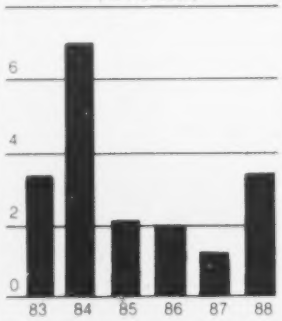
Prices continue to edge up—with a previously announced $25/ton increase on flat-rolled products holding up quite well. This is occurring despite the sluggish pattern of steel shipments noted so far this year. Reason: Less-than-anticipated 1987 USX production and outages related to high operating rates (hot strip mills are currently operating at over 80% of capacity). Other factors contributing to a strong market: this year's 15 million-ton drop in U.S. melting capacity to 112 million tons, and low user inventories.

Paper

Strength continues to be the order of the day, with 1) another attempt to boost linerboard by $30/ton (into the $380/ton range) and 2) a new 6.1% increase in pulp—one that brings prices here up to $610/metric ton. Also indicative of a bullish market: recent increases in newsprint and coated groundwood—with the latter up $60/ton this past summer (into the $720/ton range). Demand, too, looks strong—as total consumption of paper and paperboard heads for an 80-million-ton year.

Electronic component prices

(% increase)



Source: TRW Information Services Divison

Electronic components

This year's market recovery in semiconductors (demand up an estimated 17%) is no fluke. If a new Henderson Ventures projection is anywhere near correct, an even bigger 20% U.S. advance is likely for 1988. Credit continuing growth to a rejuvenation of the commercial electronics sector. Communication, computer and office, and industrial and instrument electronics will all benefit from higher capital spending sparked by an improved trade balance and higher factory utilization rates. Also expect prices to accelerate a bit—with overall electronic component tags moving up 3-4% next year.

Textiles

CURRENT SITUATION: The industry should have a fair year. Demand is high and new orders are brisk, and imports are leveling off after last year's 17% jump (sq. yd. equivalent basis). Prices are beginning to edge higher—with an added push coming from recent increases in fiber costs. Cotton and wool quotes are now running well above late 1986 levels—and price increases in polyester, rayon, and nylon have recently hit the manmade sector. **Price tags on polyester/grey goods, knitted fabrics, wool fabrics, and bed and bath products have been strong.**

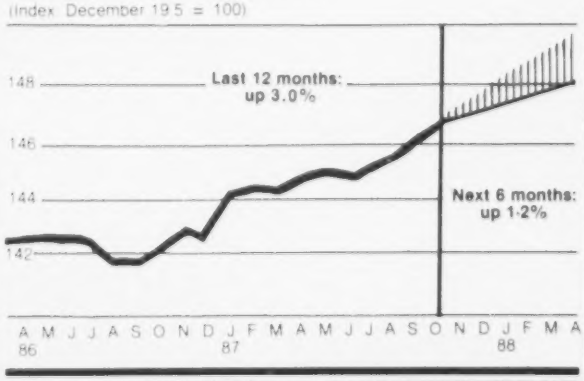
DEMAND: Mill production could be up as much as 7-8% over 1986. "Quick Response" and "Buy American" programs have also helped the domestic industry. Carpeting, hurt by housing slowdowns, will be lucky to see a 1-2% advance for 1987. And in 1988, overall gains could decelerate a bit as consumer income gains slow and somewhat higher apparel tags discourage consumer purchases. **Best bet: a 3-4% advance in overall mill production.**

SUPPLY: Today's snug markets should continue as demand holds firm, the government steps up import monitoring, and domestic operating rates hold at high levels. **Latest figures indicate that the U.S. industry is now operating at or above 95% of potential.** And rates are likely to stay near that level—current surveys suggest 1-2% capacity increases for 1987 and 1988.

PRICE OUTLOOK: The upward tilt of recent months should continue as fiber costs edge lower, markets remain tight, and import competition is somewhat muted by quota restrictions and the weak dollar. But increases should be relatively modest because of buyer resistance and mill cost-cutting (mill productivity has been rising about 5% a year—nearly double the all-manufacturing rate). **Price increases should average about 1% or less per quarter into 1988.**

Textile mill product prices

(Index: December 1985 = 100)



Energy

Earlier fears of a major energy price runup are beginning to fade. Prices will be above last year's levels, but barring a Mideast blowup, advances should be much more modest than in the past few months.

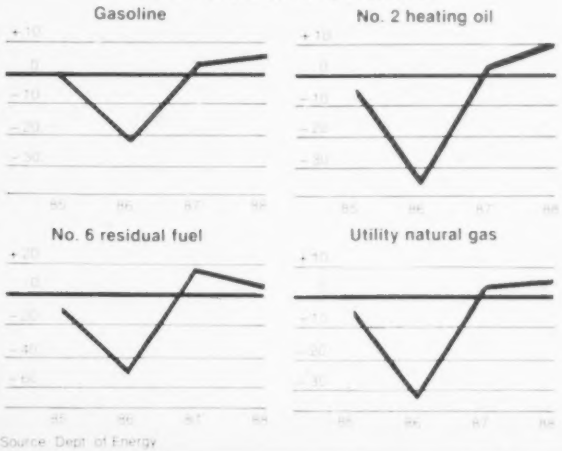
One key reason is that oil is once again becoming a glut on the market as OPEC producers exceed their agreed-upon quotas. Assuming continued cheating by cartel members (resulting in about a $19/barrel world crude price), here's what Department of Energy analysts are projecting for the rest of 1987 and for 1988:

- **Gasoline:** Pump prices should dip below $1/gallon by the end of 1987 as demand begins to drop off seasonally. Any subsequent increase will be quite modest—mid-1988 tags should average $1.03-1.04/gallon.
- **Heating oil:** By early 1988, wholesale prices should advance to near 55¢/gallon—up about 10% from recent levels. 1988 tags should average around 55¢/gallon—although somewhat lower prices are possible during the slack summer months.
- **Heavy fuel oil:** Competition from natural gas will limit near-term increases to utilities. The expected first quarter 1988 high of $2.92/million BTU is up only 7.5% from recent levels. Next year—up by just 3.5%.
- **Natural gas:** Only very small increases are anticipated as excess supplies persist. Right now, 1988 utility prices are projected to rise at only about 4.5%. Residential gas should be up just 1.5%.
- **Electricity:** Average residential rates will advance in line with general inflation. Best bet: An increase to about 8.01¢/kwh for all of 1988.

These modest price increases are likely to spur demand. Right now, energy industry spokespeople see up to a 2.5% increase in overall use next year—about three times this year's estimated 0.8% advance.

Energy prices: Four views

(Percent of change from previous year)



Source: Dept. of Energy

Chlor-alkalis

Firming prices and tighter supplies are now the story. Caustic soda, for example, now commands about $100/ton (Gulf, railcars)—up $5-15/ton from levels prevailing as recently as July. Chlorine over the same period has moved up about $5/ton—bringing tags here up into the $160-165/ton range (Gulf, tank cars). Soda ash, too, has been edging higher—with an early summer $6/ton increase reported as being at least partially successful. But tags here still remain well below the official $83/ton list—in the $73-77/ton range.

Computer networking

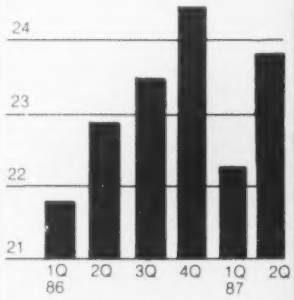
This may well be your top computer priority in the years ahead. This year, $800-900 million will be earmarked for LANs (involving the linkups of computers within about a mile of each other) and wide area networks that can span continents. And if forecasts calling for 40-50% annual growth made by International Data Corp. are correct, networking purchases could exceed $3 billion by 1990. Only 10-12% of U.S. computers used for business are now tied together. But within a few years that percentage will triple.

Polyethylene

Both the low-and high-density segments of the industry are sporting higher prices. Hikes ranging from 4-5¢/lb have recently been announced for both LDPE and HDPE. And while not all of this is likely to hold, quotes should be considerably above the 34-35¢/lb (liner grade LDPE) and 33-35¢/lb (injection and blow molding HDPE) that have prevailed over the past few months. Behind the strength: Strong demand (expected to be up 5% and 7% this year for LDPE and HDPE, respectively) and high operating rates (90% for LDPE and close to full capacity for HDPE).

Accounts receivable

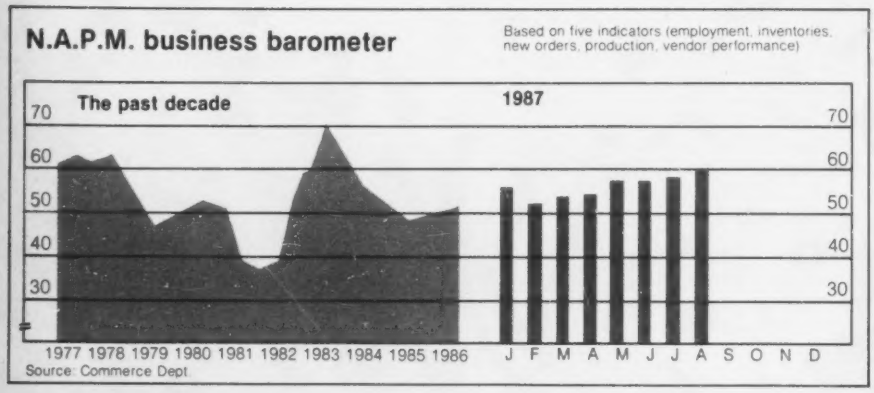
(% past due)



Accounts receivable

On-time payments are slowing down a bit. As of the latest available period (2Q 1987), 23.8% of accounts receivable were overdue—up about one and a half percentage points from three months earlier. All of the increase came in the 1-60 day past-due sector—with the 60 days and over category holding steady at 5.6%. The figures, collected by TRW's Information Service Div., also indicate some significant seasonal variation. Slowest payments usually occur 1Q.

BUSINESS DATATRAK


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1987
70
60
50
40
30
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
J F M A M J J A S O N D
Source: Commerce Dept

KEY ECONOMIC TRENDS

Indicators point to good finish for 1987

The year should be ending on a fairly strong note, even though some of the basic problems—the budget and trade deficits, and a weak dollar—remain. And somewhat higher interest rates could hurt over the long pull.

But for the near term, things are actually looking up. Industrial production, aided by increasing exports and continuing trim inventories, has to be regarded as a plus. So does the price and wage restraint that turned out to be greater than expected only a few months ago.

All this can probably best be summed up by looking at the N.A.P.M. Business Barometer—a yardstick that has consistently been able to call the turns in GNP and other key indicators of the general business trend. The latest reading is 59.9—nearly 10 points above the neutral 50 mark, and the highest level in 3.5 years.

A look at inventories best illustrates the newfound optimism. Traditionally, inventories would have shown a sharp rising trend at this mature stage of a business recovery. Not so this time around.

Specifically, the factory stock/sales ratio at latest report was down near 1.62 (see chart). That's close to its all-time low and far under the 1.75 high hit back in early 1986.

This can't be underestimated. Low stock/sales ratios mean new factory orders, as they come in, will quickly be translated into new production. And that's apparently what's been happening—with industrial output now rising at an annual rate of 4%.

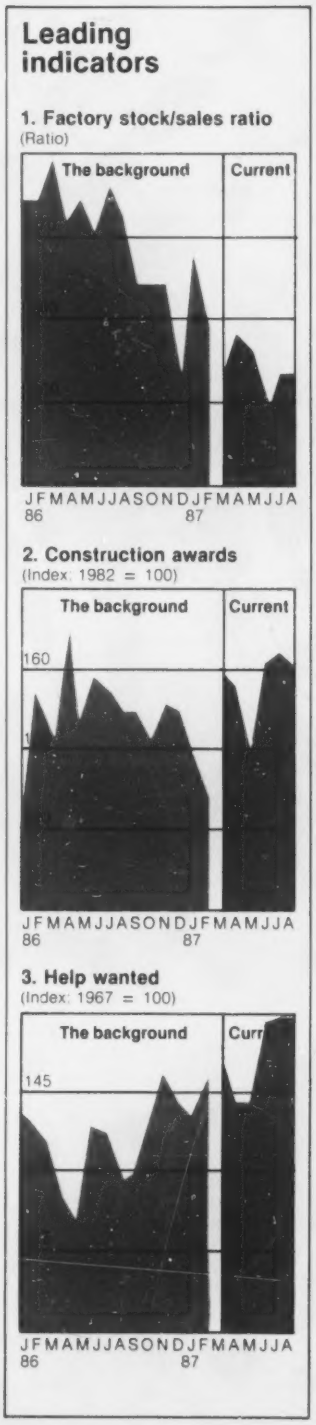
Construction trends aren't bad, either. Higher interest rates are hurting housing starts, but note from the chart that overall awards remain quite high.

Equally significant, total awards so far this year are actually running 1% ahead of 1986 levels. Much of the upward thrust is coming from non-building construction which is up 7%.

The employment picture also suggests continued economic buoyancy. The help-wanted index (see chart) is now at its highest point in years.

A spokesman for the Conference Board, which compiles this series, adds that "The latest readings suggest that the improving trend in labor market activity is likely to continue into the fall. The gains of recent months reflect a very sharp rise in the South Atlantic and East South Central states, while elsewhere the increase has been more moderate."

This basically optimistic labor picture is further supported by government figures which show continued increases in business payrolls and an unemployment rate that re-


Leading indicators
1. Factory stock/sales ratio
(Ratio)
The background
Current
J F M A M J J A S O N D J F M A M J J A
86
87
2. Construction awards
(Index: 1982 = 100)
The background
Current
160
J F M A M J J A S O N D J F M A M J J A
86
87
3. Help wanted
(Index: 1967 = 100)
The background
Curr
145
J F M A M J J A S O N D J F M A M J J A
86
87

mains stable in the relatively low 6% range.

Consumer spending on some big-ticket items like autos continues to disappoint—despite all the big new financial incentives now being offered. But this, in itself, won't be enough to prevent further GNP gains.

Upshot: Look for another modest increase in GNP for 4Q 1987—probably about 2-3% at annual rate.

Fleet cars will be driven longer, harder

Another shift in fleet car strategy—toward keeping cars longer and driving them more—may be in order, say 260 commercial fleet car managers in a recent survey by the National Association of Fleet Administrators (NAFA).

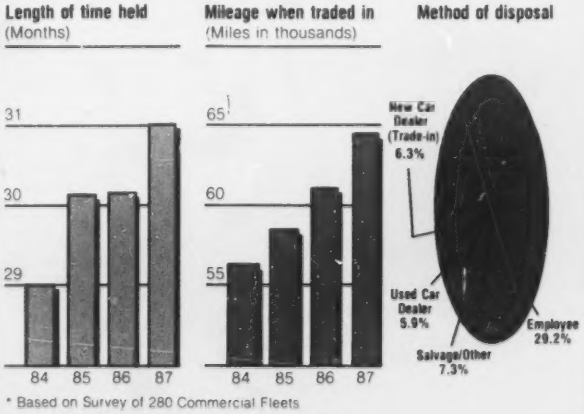
Some of the new study's key findings:

- **Mileage driven:** The average commercial fleet car is now driven 64,356 miles—up 5.5% from the previous year.
- **Vehicle age:** The average age of a trade-in is now near 31 months—up nearly a month from last year's 30.2-month reading and up 2 months from 1984.
- **Disposal method:** Auto auctions/wholesalers are the most popular approach for commercial fleets—accounting for more than half the vehicles sold. Another 30% are earmarked for employees. The rest of the cars are about equally divided between new car dealers, used car dealers, and salvage.
- **Selling price:** When sold to an employee, the going quote is usually determined by using the Automotive Marketing Report. Other common price-determining methods: book value, leasing company price, NADA wholesale prices, and Black Book value.

The survey also looks at non-commercial fleet practices and finds that these vehicles are held even longer. The pertinent figures are: public utilities (81,362 miles and 61 months) and governmental fleets (87,231 miles and 55 months).

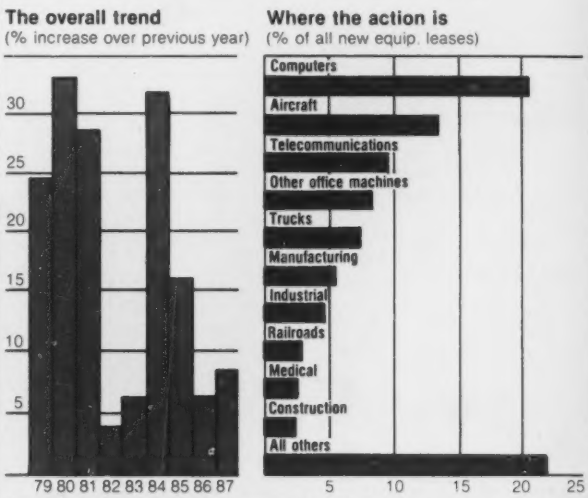
Also worth noting: Almost all of the responding fleets (97% of commercial, 92% of government, and 96% of public utilities) sell cars "as is." Likewise, 88%, 71%, and 88% of these fleets, respectively, do not recondition their cars before disposal.

Fleet car management trends*



* Based on Survey of 280 Commercial Fleets
Source: National Association of Fleet Administrators

Equipment leasing: still growing



Source: American Association of Equipment Lessors

Lease is more

Equipment leasing is heading for another record year. New survey results just released by the American Association of Equipment Lessors (AAEL) suggest close to $100 billion in new business for 1987—a significant 8% advance above levels prevailing in 1986.

More important, it marks another in an uninterrupted series of gains (see chart). Another figure worth pondering is the AAEL estimate that anywhere from 25-30% of all equipment acquired in the U.S. today is leased.

More specific figures, which cover 1986, pinpoint where most of the action is. Last year some $15-20 billion in new leasing business went for computers. And preliminary indications point to a substantial gain in this sector in 1987.

Other significant figures on new leasing business over the past year: Autos ($10-13 billion), aircraft ($10-12 billion), trucks ($6-7 billion), telecommunications equipment ($5-6 billion), office equipment other than computers ($4-5 billion), manufacturing machinery ($2.5-3 billion), and industrial equipment ($2-3 billion).

The new AAEL study also finds lessors putting more and more emphasis on non-tax products and doing less big-ticket tax-oriented leasing.

Commenting on this trend, AAEL Chairman William Montgomery, president of Xerox Credit Corp., observes, "We are seeing increasing interest in the non-tax benefits of leasing such as cash flow advantages, its hedge

against obsolescence, flexible terms, and equipment expertise."

Another trend revealed in the survey is the move toward short-term operating leases. More and more companies are now using leases of average terms of 60 months.

On the other hand, the industry expects there will be slower growth in leveraged and direct financial leases because they are more sensitive to tax law changes than operating leases.

CURRENT PRICES

Prices creep but not too steep

The basic inflation pattern of spring and early summer continued last month —with industrial producer price averages still moving up about 3-4% annually.

Once again, energy sparked the advance as gasoline, home heating oil, residual fuel, jet fuel, and liquid petroleum gas all rose and offset slight declines in natural gas and coal. But the upward trend may be ending as OPEC overproduction puts downward pressure on crude oil quotes and eventually refined petroleum products.

Also reassuring was the drop-off in industrial chemicals which fell about 2% over the past month. Plastic resins also dropped. But newly posted increases in the resin area suggest a return to the plus column when the next overall price report is released.

Somewhat less satisfying was last month's 0.6% advance (more than 7% at annual rate) in the construction materials sector. Moving up over the month were nonferrous wire and cable, fabricated structural metal products, softwood lumber, plywood, plastic construction products, asphalt roofing, and building paper and board. Only gypsum among the major materials reported a decline.

Paper price trends don't appear to be that rosy, either. Quotes advanced on a broad front—higher asking prices are in effect for paper, paperboard, and many types of shipping containers.

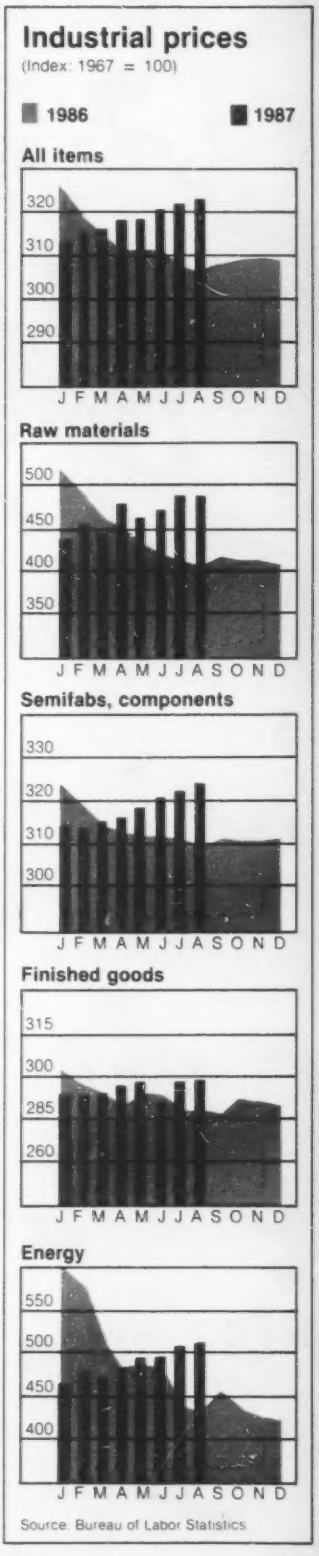
A similar trend is noted in the metals area as new boosts hit steel, copper, and aluminum. Fabricated metal products followed suit. But lead seems to have topped out and zinc is beginning to weaken after a long runup.

Some upward tendency is also noted in capital equipment—prices are advancing 0.2% (2.4% at annual rate) over the past

This month's breakdown

	Latest level (August)	% change from: Month ago	Year ago
Bearings	357.0	0.1	−0.1
Bolts, nuts, etc.	278.9	0.1	0.6
Chemicals, inorganic	292.6	−0.7	−0.7
Chemicals, organic	353.4	−2.1	9.8
Concrete products	326.3	0.1	0.4
Corrugated cartons	NA	NA	NA
Cutting tools, small	293.2	0.0	0.4
Electric lamps (bulbs)	353.3	1.7	1.5
Electronic components	203.7	−1.0	0.5
Fans and blowers	371.7	0.3	1.6
Foundry and forge products	365.3	0.4	0.9
Fuel oil (residual)	721.6	4.8	99.9
Furniture, commercial	327.3	0.2	2.9
Gasoline	429.5	3.5	38.2
Glass, flat	238.3	0.3	2.5
Glass containers	402.3	0.0	0.0
Gypsum products	308.6	−2.6	−10.2
Hand tools	396.7	0.3	3.3
Hand tools, power driven	241.8	0.5	1.3
Industrial furnaces	402.2	0.0	1.8
Integrating and measuring instruments	241.1	0.1	1.8
Internal combustion engines	359.5	0.1	1.5
Lubricating oil	345.0	−5.6	−0.2
Lumber millwork	332.0	0.2	3.2
Material handling equipment	299.1	−0.1	0.7
Metal containers	358.4	0.2	−1.2
Metal mill shapes (nonferrous)	324.9	1.2	8.0
Metal tanks	302.7	−0.3	1.2
Motors and generators	357.3	0.1	1.2
Motor trucks	323.0	1.1	5.5
Office and store equipment	159.0	0.1	2.9
Paperboard	300.7	1.5	9.4
Paper boxes and shipping containers	287.8	0.1	6.6
Paper office supplies	240.9	−0.6	1.5
Paint	284.6	0.3	0.7
Plastic resins	321.5	−0.8	9.2
Precision measuring tools	278.4	−0.3	3.9
Pumps and compressors	365.2	−0.5	0.8
Refractories	375.3	0.2	0.8
Rubber belts and belting	327.5	−0.1	−3.4
Scales and balances	234.4	0.0	1.3
Steel products	354.3	0.3	1.7
Switchgear	290.7	−0.2	1.8
Textiles, synthetic fibers	148.5	0.3	−0.7
Textiles, gray fabrics	157.3	−0.4	4.7
Tires and tubes	232.4	0.1	−0.3
Transformers and power regulators	240.2	1.9	2.5
Welding equipment	304.5	−0.4	0.7
Wire and cable	217.6	3.4	5.9

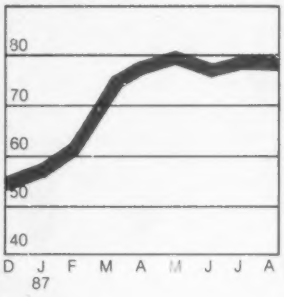
Industrial prices
(Index: 1967 = 100)



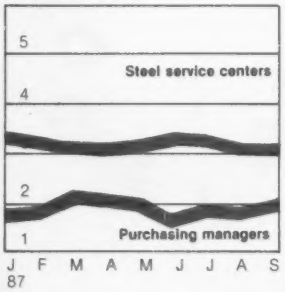
Source: Bureau of Labor Statistics

Steel

Operating rates

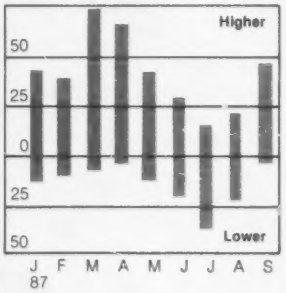


Inventories
(Months supply on hand)

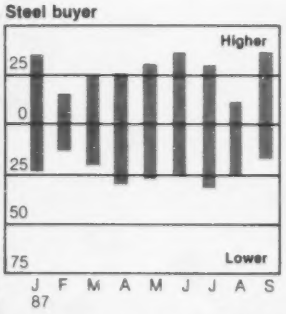


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

30 days. Sparking the increase were light motor trucks, transformers, engineering and scientific equipment, and storage batteries. But there were some offsets—namely declines in packaging machinery, material handling equipment, pumps and compressors, and welding equipment.

Also reassuring in the capital investment sector is a new Commerce Department report projecting 1987 plant & equipment totals. Comparing figures on a current dollar basis (up 2.5%) and volume basis (up 1.4%) indicates that current plant and equipment prices will advance only about 1% for the year as a whole.

STEEL SCENE

Turnaround in steel buying

Rather than falling off as projected earlier, steel demand could show some fair-sized gains over the remaining months of the year.

Both buyers and service centers are pretty much agreed on this point. Some 36% of purchasing managers responding to the latest N.A.P.M. buyer survey expect to increase their intake of steel through yearend vs. the 18% who feel some cutbacks may be in order.

More significant, this marks a complete turnaround from the previous month when 11% anticipated increases and 25% expected decreases. In fact, there hasn't been such a preponderance of opinion in favor of an increase in steel receipts in more than a year and a half.

The latest Steel Service Center Institute (SSCI) survey suggests an even more dramatic pickup. At latest report, 46% of queried distributors were betting on gains over the next three months—far outweighing a minuscule 5% who felt that declines might lie ahead.

If true, this would assure a solid "plus" year for service centers. Reason: Year-to-date shipment figures for these middlemen are already running more than 5% ahead of year-ago levels.

But part of this could represent a shift in source of purchases—from mills to service centers—rather than any increase in overall consumption. Taking off on this, SSCI President Andrew Sharkey observes, "Extended lead-times and reduced availability, particularly of plate and some sheet products, have resulted in some mill buyers increasing their use of steel service centers."

This concern about tightness may well be warranted. One top Midwestern mill executive told *PurchasingWorld*, "You can't even talk about leads; if you don't have a position with the mill, it's impossible to place an order."

Sharkey says that demand is not the problem. He attributes the snugness to production shortfalls at the mills and a drop in foreign imports. The latter, he says, are down for two reasons: the fact that some overseas suppliers have filled their 1987 allocations and now have to wait until 1988 to resume big-scale shipments, and the weak dollar, which has forced import prices up.

On the latter score, only 13% of queried service centers now say foreign carbon steel is cheaper—compared to 36% a year ago. And the dropoff in stainless bargains is even more impressive—17% now report cheaper incoming shipments, nowhere near the 93% reading of a year earlier.

A similar picture is painted by steel-buying PMs where only 25% note price breaks—with all dubbing the advantage as "slight." A year ago, 43% said they were paying less overseas.

Buyers also say foreign mills are now a lot less active than they were in seeking new U.S. business. Roughly one out of three reports less activity than three months ago—and only 4% report increased activity.

Again confirmation comes from service cen-

Import prices
(Compared to domestic)

Steel buyers

ABOVE 18%
SAME 57%
SLIGHTLY BELOW 25%
SUBSTANTIALLY BELOW 0%

Service centers (carbon)

ABOVE 2%
SAME 85%
5-10% BELOW 13%
10-20% BELOW 0%
OVER 20% BELOW 0%

ters, where the comparable figures are 78% less active and only 2% more active.

Meantime, this reduced foreign competition—coupled with good demand—is expected to drive steel procurement costs up. Specifically, 92% of the distributors feel replacement costs six months hence will be up—and not one anticipates any decrease. More important, 21% feel the increase could be in excess of 5%.

Despite expectations of higher prices and supply tightness, there's little indication—either on the part of buyers or service centers—of any inventory buildup. In the case of PMs, 36% contemplate inventory decreases over the next six months, outnumbering the 7% who feel some increases may be needed.

Implication: Few expect any really long-term problems. Several buyers queried by *PurchasingWorld* see a return to better supply/demand balance—if not by yearend, then certainly by next spring or summer.

PROCUREMENT STATUS

Get ready to add a little wait

The drying up of some supply excesses—aggravated by a normal fall business pickup—is causing some modest procurement stretchouts and delays.

But there's little to suggest a major shift in the basic supply-demand situation. About half of the two-point advance in *PurchasingWorld*'s exclusive leadtime index to 52 (50 is neutral) can be traced to seasonal factors.

The same is probably true of the 20% of N.A.P.M. Business Survey Committee members who report slower deliveries over the past month. This reading is only slightly above the 17.5% average of the previous two months.

Problem areas are scattered rather than across the board. Much of the tightness is centered in steel (three of the five products mentioned on the N.A.P.M. short supply list are in the steel category).

An easing pattern should occur in plastics and some inorganic chemicals since there seems to be adequate capacity to meet the modest near-term demand increases currently being projected.

All the above is not meant to imply that we will return to the buyers' market of the past few years. Current and projected factory operating rates suggest no decline to earlier levels. The average utilization figure will remain at close to 80% of capacity.

That's a figure most economists can live with—low enough to keep prices from rising too precipitously and high enough to assure additional capital investment to keep GNP in the plus column.

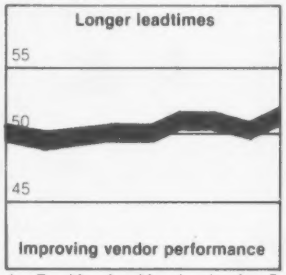
The lack of concern also shows up in buying and inventory trends. On the buying front, 54% of PMs queried say they are still ordering on a 30-day-or-under basis vs. 58% and 56% two months and one month ago, respectively.

On the inventory sector, few seem ready to lay in extra supplies. In the latest reported month, the 18% who said they were accumulating was balanced by 17% who were paring. Since this is occurring at a time when inventories tend to rise seasonally, it should be regarded as a reassuring sign.

Monthly procurement status report

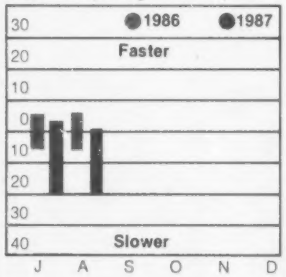
Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



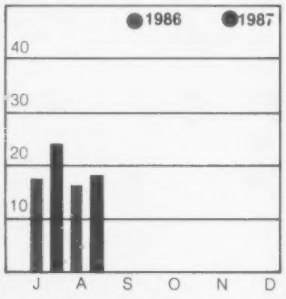
Delivery performance

(Percent reporting deliveries)



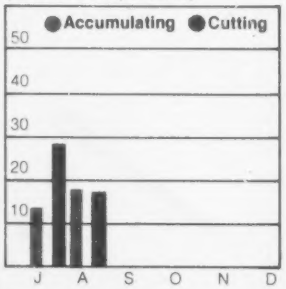
Forward commitments

(% committing 90 days or more in advance)



Inventory strategy

(Percent of respondents)



Source: NAPM

Leadtimes and availability

Chicago: Steel is a problem—with only those holding a position with a mill able to place an order. Hot-rolled and plate are particularly tight. Also in aluminum coil and sheet, most mills are quoting 22 weeks in the absence of an allocation. Elsewhere lumber and plywood are out to as much as 6 weeks.

Cleveland: Steel alloy metals are snug. Elsewhere it's status quo with these weekly leads: glassines and greaseproof papers (4-5), hardwood lumber (2-3), softwood lumber and plywood (1-3), plastic shrink film (on demand), corrugated (2-3), 2-ply fiber drums (2), paint (2-3), and aluminum (8).

Los Angeles: The West Coast seems to have avoided recent tightening—with these typical (basically unchanged) weekly leads: galvanized steel (14), aluminum tubing and specialty wire (4-6), grey iron castings (10-12), corrugated boxes (3-5), pumps (11-12), and stainless coil (14-16).

Houston: Longer waits here, with these higher weekly leads: high-density polyethylene and polypropylene (7.5), galvanized steel coil (18), carbon steel tubing (16-18), alloy steel tubing (18-20), and plastic

bottles (11). Also high pressure heat exchangers are at the upper end of their 17-20 week range.

Philadelphia: Steel leads (in weeks) are up to the following levels: carbon and alloy seamless tube (8-9), stainless flat rolled strip (16), nickel alloy tubing (10-12), and stainless round coil from mill (14). One exception: carbon bar hex shapes which have come in 6 weeks (to 8).

Pittsburgh: Lead has moved out a week (to 3). Copper fabricated mill products are out another 2 weeks (to 6). Zinc takes 5 weeks but is expected to shrink in line with recent mine settlements. Not much change elsewhere: multiwall bags (6), plastic bags, and corrugated and folding boxes (3-4), and plastic resins (5-6).

Leadtimes (in weeks)

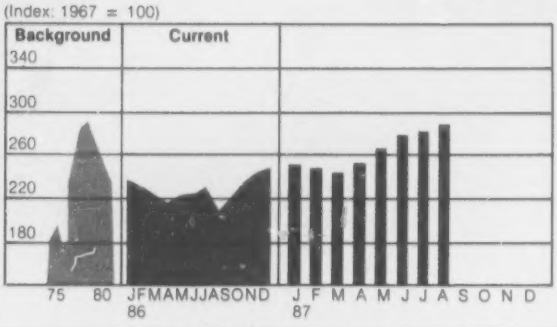
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	11	11	8
Plate (Phil)	10	10	3½
Plate (Chgo)	13½	13½	4
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	11	11	6½
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	12	12	12
Structurals (Chgo)	5	5	4½
Structurals (Hous)	11	11	11
Tubing (Phil)	8½	5½	5½
Grey Iron Castings (LA)	7	7	4½
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	16	16	16
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	4½	4½	4½
Motors (Phil)	9	9	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	2½	2½
Plywood (Chgo)	5	3	3
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2½	2½	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	½	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	½	½
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	22	19	13
Aluminum Plate (Chgo)	14	14	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	22	19	13
Brass Castings (LA)	9	9	7
Brass Rods (Chgo)	7½	7½	9
Brass Sheet (Chgo)	11	11	5
Brass Tube (Chgo)	13	13	7
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	4	6
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	4	4	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	50
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	8	8	7
Fasteners, Std. (Phil)	3	3	3
Heat Exchangers, Carbon-alloy Steel (Hous)	22	21	21
Heat Exchangers, Hi-pressure (Hous)	25	24	24
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	21	21	24
Pumps (LA)	11½	11½	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	4	4	4
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

Latest month 288.0
Month before 284.2
Year ago 212.0

(Index: 1967 = 100)



Latest spot market prices

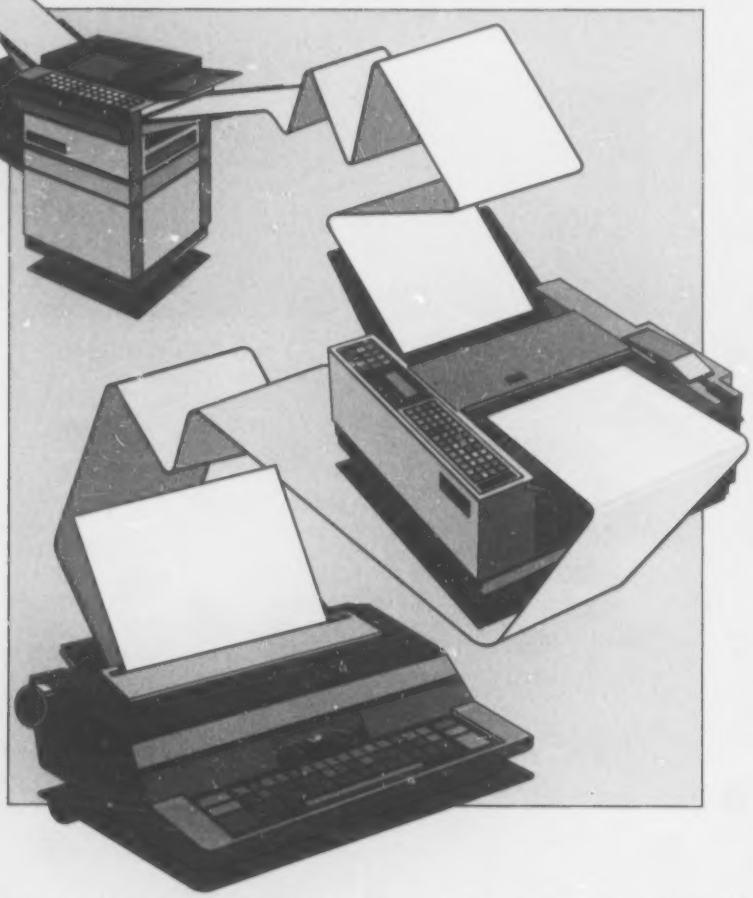
	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	23.95
Steel, bars, Pitts., cwt.	16.50	16.50	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	19.75	19.75	18.25
Steel, plates, H.R., Pitts., cwt.	19.75	19.75	18.25
Steel, sheets, C.R., Detroit, cwt.	26.90	26.90	25.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.780	.765	.550
Antimony, N.Y., dealer, lb.	1.12	1.06	1.07
Beryllium-copper, cost ingot, lb.	5.65	5.65	5.65
Brass, red, 85%, [sheet], lb.	1.45	1.47	1.28
Brass, yellow, [sheet], lb.	1.40	1.42	1.23
Cadmium, N.Y., dealer, lb.	2.20	1.45	1.05
Copper, electrolytic, wire bars, refd., lb.	.81	.83	.64
Copper sheet, over 24 in., lb.	1.54	1.56	1.37
Lead, common, N.Y., lb.	.42	.42	.23
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	330.00	300.00	182.00
Molybdenum, oxide, dealer, lb.	3.02	2.75	3.15
Nickel, cathode, dealer, lb.	2.50	2.32	1.79
Platinum, dealer, oz.	600.00	630.00	621.00
Silver, N.Y., oz.	7.56	7.76	5.70
Tin, N.Y., dealer, lb.	3.17	3.04	2.57
Zinc, Prime West, East St. Louis, lb.	.43	.47	.44
Zinc, die casting alloy, No. 3, lb.	.485	.525	.475
PAPER			
Uncoated book #3 offset, ton	860.00	860.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.98	17.01	16.34
Grocery sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	620.00	620.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	350.00	350.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.236	.240	.222
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.22	0.94
Cotton middling, 1", N.Y., lb.	.682	.734	.330
Printcloth, 48", 80x80, N.Y., spot, yd.	0.95	0.97	0.74
Army duck, 37", 13 oz., yd.	1.495	1.495	1.450
Blended printcloth, 64", 78x54, yd.	.92	.94	.75
20s combed yarns	2.03	1.98	1.74
Wool 64s, Staple, lb.	3.00	2.70	1.90
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	105.00	105.00	80.00
Benzene, petroleum, tanks, Houston, gal.	0.93	0.95	0.80
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.81	.81	.91
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.32	.32	.28
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.295	.295	.270
Polyethylene resin, low density liner film grade (market place), lb.	.345	.345	.250
Polypropylene, homopolymer grade (market price), lb.	.440	.440	.320
Polystyrene, general purpose grade (market price), lb.	.520	.535	.330
Polyvinyl chloride, pipe grade (market price), lb.	.360	.340	.285
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.38	.40	.33
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.77	.77	.73
Xylene tanks, gal.	.780	.820	.800
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	329.60	331.50	324.85
Lumber 2x2 pine, mbf, cl	335.95	334.10	313.00
Plywood, plyform, ⅜", msf, cl	580.65	585.15	591.25
Plywood, ¾", msf, cl	385.95	389.00	385.55
Cement, bulk, ton, tl	64.25	64.25	63.35
Sand, ton, cl	7.21	7.17	6.62
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	49.08	49.08	45.83
Crushed stone, 1½", ton, cl	8.30	8.28	7.78
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.90	0.90	0.83
Gypsum sheathing, ½"x1"x8", msf, tl	228.23	228.23	217.57
Brick, common, per thousand, tl	198.26	198.26	185.81
Asphalt paving, AC-20	137.59	132.97	144.97
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.50	7.51	7.21
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	15.50	17.25	11.00
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	18.00	21.75	14.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.565	.600	.470
Gasoline, 94 oct., reg., Chi., tank car, gal.	.540	.605	.470
Heating oil, No. 2, Chi., bulk, gal.	.530	.567	.450
Heating oil, No. 2, N.Y., bulk, gal.	.503	.585	.463
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal	.510	.540	.410
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.245	.245	.245
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	94.00	89.00	76.00
Steel, No. 1 hvy., dlvd., Chi., ton	90.00	83.00	72.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.730	.735	.560
Copper, No. 2, East, wholesale buy, dlvd., lb.	.650	.650	.475
Brass, red, East, wholesale buy, dlvd., lb.	.690	.695	.520
Brass, yellow, East, wholesale buy, dlvd., lb.	.365	.365	.310
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.495	490	.335
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.560	.555	.355
Zinc, old, East, wholesale buy, dlvd., lb.	.200	200	.170
Lead, clean solids, East, wholesale buy, dlvd., lb.	.275	.275	.130
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	40.00	40.00	25.00
Paper, old corrug. box, dlr., N.Y., ton	25.00	25.00	20.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.12	.12	.09
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.23	.23	.11

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Circle 386 on card

Office equipment: making the right connections

Compiled by Caroline Reich, associate editor



If attractive price tags are what you're after, there are plenty to be had in today's office products market. Tough competition and seemingly "runaway" technology should guarantee great deals through 1988 in all but a very few product lines. But savvy buyers know that the best price doesn't always mean the best buy—and that's where the challenge lies for those buying office supplies and equipment.

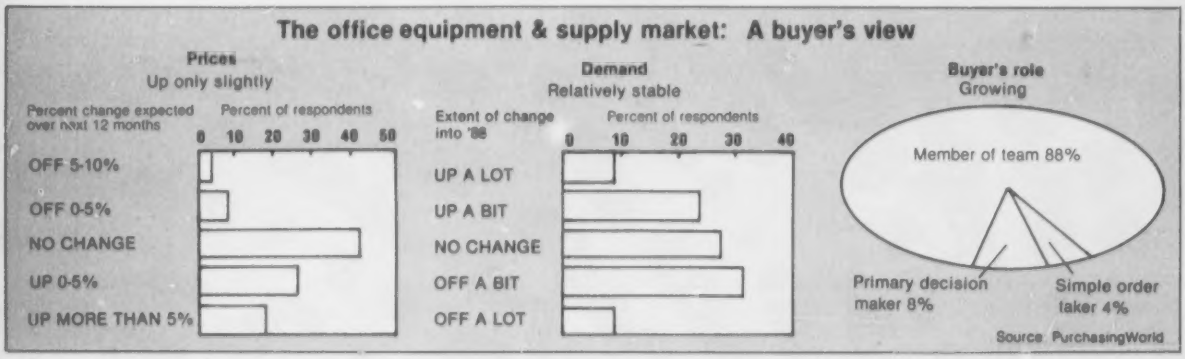
The office products market is primed for the buyer looking for such a challenge. If, for example, you are looking to buy a fax machine, you'll find there are at least a half dozen new vendors in the market this year—including Brother International, Gestetner, and Mitsubishi. And existing suppliers have expanded their lines to make the choices even tougher. Many paper buyers are hustling to sign blanket contracts for as long as 2 years to lock into good prices before a projected 1988 increase kicks in.

The point is that buyers must look much more closely at function to determine the value of the equipment and supplies they buy. They need to become more aggressive in hammering out aggressive deals with manufacturers, dealers, and distributors. According to a recent national ***PurchasingWorld*** survey, purchasing pros are rising to this challenge in some unique ways. Executive editor Bob Reichard polled a national sample of purchasing managers to find out how they viewed the economic conditions of the office market. Here's what they said:

- **Overall price trends into 1988:** While some increase in office equipment and supplies seems inevitable, the average boost over the next 12 months is put at just over 2%. And not everyone expects to be hit. More than half of the surveyed respondents still hope to hold tags at or even under levels prevailing over the past year.
- **Product-by-product price trends:** More than 75% of queried buyers believe that personal computer quotes will head downward in 1988—somewhere in the 5-10% range. Roughly half expect cuts in PC software and printers as well—and a fair number expect drops in typewriters.

Copiers and telecommunications equipment, on the other hand, are expected to remain unchanged. Only paper and office furniture should post gains—but they'll be less than 5%.

- **Overall demand into 1988:** The volume of office equipment and supply purchases should remain stable over the next 12 months. Couple this with an already oversupplied market, and a continuing buyers' market seems a sure bet.



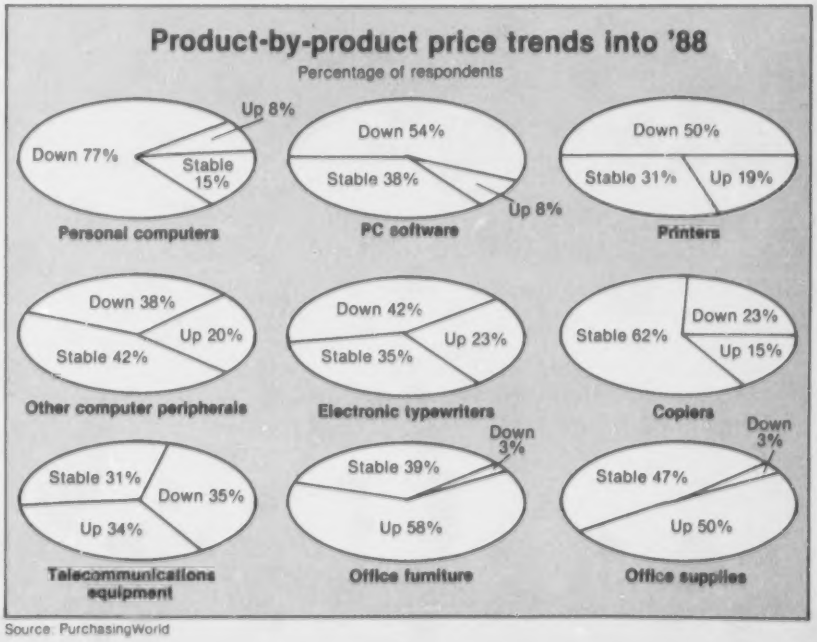
The role of purchasing

Zero in on sophisticated equipment, and you find more and more buyers now playing a key role in the decision-making process. Nine out of ten survey respondents say they are part of a team that makes the ultimate buying choice. This compares with only 70% noted just six months ago when a similar question was posed.

Why this upswing in purchasing involvement? Many respondents say that they have become involved in an effort to standardize equipment within a company to take advantage of volume discounts and assure compatibility. Purchasing, of course, has this type of expertise so it is logical that they become involved. Other problem areas particularly suited to purchasing's skills include obsolescence, proliferation of new suppliers, disposal of older generations of equipment, service and maintenance contracting, and the evaluation of new technologies.

To deal effectively with all of these problems, purchasing pros have employed a number of trouble-shooting methods including the use of blanket contracts, competitive bidding, leasing arrangements, third party evaluations, and getting more educated about the new technologies involved. Other buyers have focused their efforts on forming strong maintenance and service contracts. And nearly all buyers responding to the survey have put performance monitoring programs into effect for major equipment buys.

The survey also revealed that there is an increasing emphasis on life cycle costs—total value vs. original cost alone. There seems to be less interest in "bells and whistles" that often add substantially—and unnecessarily—to overall costs. In the words of one procurement VP, "We're finally asking the right questions about what we really need in our office buys—and it's paying off in a big way." ***PW***



Source: PurchasingWorld

Nonferrous prices vex buyers

It's been a rough year for most nonferrous metal buyers—not because of product availability but because of price increases which have exceeded beginning-of-year expectations.

The worst seems to be over. Some tapering off in the rate of rise and a few corrections are anticipated in the months and quarters immediately ahead. But that's little solace to purchasing managers who will see the average nonferrous metal price advance about 8% this year. It's all in marked contrast to the previous three years of shaky and even declining quotes (see chart).

Moreover, this tells only part of the story. Zero in on some of the major volume metals, and this year's increases have been a lot more impressive than suggested by the above overall average.

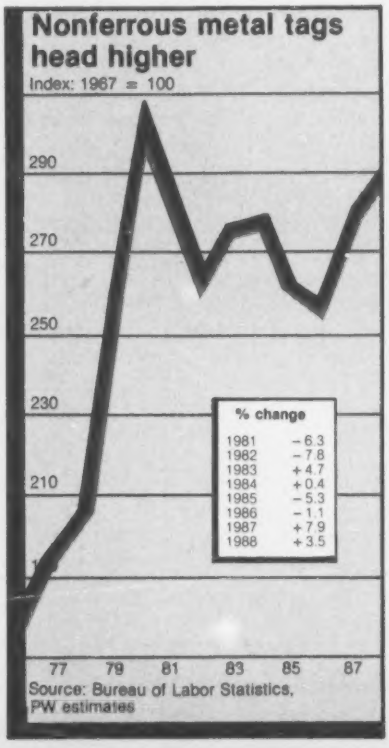
Thus lead prices at latest report were running close to double year-earlier levels. And 35-40% boosts in aluminum ingot and copper cathode over the same 12-month period can hardly be deemed moderate.

Some of the smaller-volume metals have zoomed up, too. Dealer cadmium has doubled in price since last fall. Dealer mercury, cobalt, and bismuth are all up by 70% or more over this period. And significant increases are recorded in nickel, selenium, silver, platinum, tin, and zinc.

About the only consolation—if you can call it that—is that nonferrous averages have failed to re-attain their peaks of a few years ago. The overall price index, for example, is still more than 15% under the high point hit in early 1980. And the same is true of many individual metals. Thus copper, lead, and zinc are nowhere near setting new records, although all have jumped significantly in recent months.

The big question is, why the sudden firming this year? A number of factors is probably responsible.

The industry has been able to bring supply and demand back into somewhat better balance through production cutbacks and plant slowdowns last year. Related to this has been the decline in producer inventories—plus the fact that user stocks have held at very low levels.

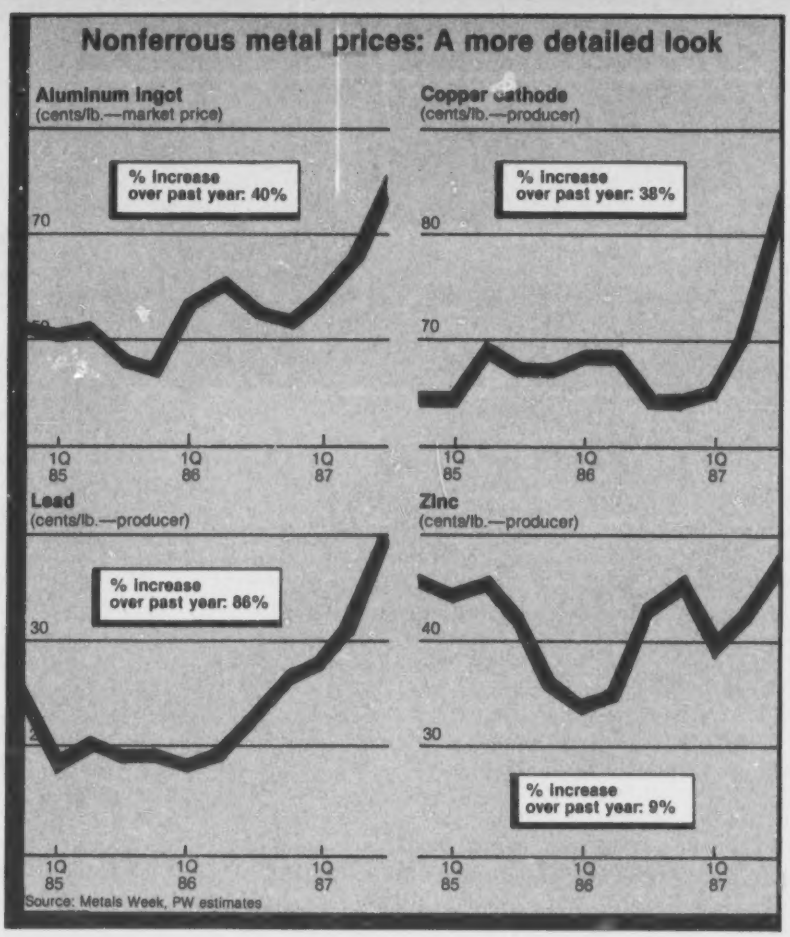


Also driving prices up: 1) strikes or threats of strikes in the lead, zinc, and aluminum sectors, and 2) a relatively weak dollar. Additional upward impetus in the precious metal area can be traced to the shaky Mideast situation, South African racial unrest, and fears of renewed inflation.

On the other hand, rising consumption has not been much of a factor. Global use of nonferrous metals is up—but only fractionally, as the Free World's industrial countries are growing at an unimpressive 2-3% annual rate this year. The point is that this kind of growth isn't nearly enough to tax mining and smelting capacity, which in most instances remains well above current and projected needs.

This excess capacity is a basic restraint on price advances over the long pull. There are already signs that production is being beefed up, particularly in the copper and aluminum sectors. And as strikes are resolved, there could be considerably more lead and zinc available by early next year.

Couple this with expectations of very modest consumption advance, and 1988 should see considerable moderation in the current upward price trend—at least on an overall basis. ***PurchasingWorld*** equations, for example, point to only a 3-4% rise in the aggregate nonferrous metal price index next year—in line with the general U.S. inflation rate



expected at that time.

But averages can be deceiving. Here's a more detailed metal-by-metal rundown—with an emphasis not only on where those metals are now, but on where they seem to be heading over the remainder of the year and into 1988:

■ **Aluminum:** Prices have continued to edge up through the summer. Ingot commanded more than 80¢/lb in early September—up more than 25¢/lb from late 1986. Extrusion billet is even higher, at about 90¢/lb. Fabricated product tags have moved up substantially as well. Also indicative of strength: Producers recently shifted to a price-at-time-of-shipment policy.

Strike fears have undoubtedly played a role in the recent firming. Even more significant has been the shrinkage in Free World stocks. At latest report, global holdings were only about 1.5 million metric tons—down close to 20% from year-earlier readings. North American inventories are off an even greater 28% over this same 12-month period.

Improved supplies seem certain in the months ahead as several North American producers bring on additional production (enough to bring the U.S. operating rate up to the 87% mark). This, in turn, should put a ceiling on further price increases—particularly in view of continuing modest consumption gains. Usage on a Free World basis, for example, is expected to rise only about 2% this year (to 13.1-13.2 million metric tons)—with a similar small gain anticipated for 1988.

■ **Copper:** After years of aborted rallies, it has managed to move up into the 80¢/lb range—more than 15¢/lb above 4Q 1986 readings and the highest level in four years. Another sign of strength: Inventories did not rise as they normally do over the summer. Historically, a global increase of about 50,000 metric tons is noted in the 3Q. No such gain has been reported this time around.

This year refined Free World output is expected to rise by less than 1% (to 7.543 million tons). On the other hand, refined global consumption will rise 1.4% (to 7.637 million tons). The result will be a global deficit of nearly 100,000 tons.

But, as in the case of aluminum, additional output (the Ok Tedi, New Guinea and Kennecott Bingham Canyon mines are now on stream) should help put a lid on further price increases. Indeed, a modest correction can't be ruled out—though any downturn is likely to be temporary and quite shallow.

■ **Lead:** Recent strikes and shutdowns for facility repairs have cut into production—keeping prices up in the high 40¢+/lb range. To put this into perspective, that's nearly double the 22¢/lb average prevailing during the 3Q 1986.

Some uneasiness should begin to appear by yearend or early 1988. By then all the recent work stoppages should be history. Demand by that time should also begin to tail off seasonally. Upshot: Some modest price erosion—though the bargain-basement quotes of 1986 are unlikely to recur.

■ **Zinc:** The price firming of the past spring and summer has been reversed as labor peace gradually returns to North American mines. Over the past few weeks prices have slipped back down into the low- to mid-40s range. And there's little to indicate that there will be any new upturn as the market remains fundamentally oversupplied and users keep their inventories at bare minimum levels.

Demand from the housing and auto markets has been less than sen-

sational. Not surprising, worldwide chewup is off 3-4% this year. And on the supply side, additional shipments have begun to come in from Peru. Upshot: current lists are back where they were a year ago, though for the 3Q as a whole they are still up a bit, reflecting recent summer strength.

■ **Nickel:** An increase of close to 80¢/lb since last December has brought dealer cathode up to around $2.50/lb—with other grades up commensurately. Much of the strength can be traced to surprisingly strong demand from the stainless steel market. Overall, U.S. consumption should be stronger than the 1986 level of 282 million lb.

Meantime, on the supply side, shipments from the Soviet Union have been lower than expected. Some additional Free World metal will be coming on stream over the next few months. But it's unlikely this will have any impact on prices until early next year.

■ **Precious metals:** Price trends for the most part are dependent on increasingly uncertain international developments rather than supply-demand fundamentals. That's why tags have tended to advance strongly over the past few quarters. Biggest increases have been in silver, where quotes at latest report were running more than 40% ahead of late 1986 levels. Platinum shot up 30%—with gold registering a gain of nearly 20%.

Despite all these increases, supplies for industrial users will remain adequate—though prices should continue to run well above year-ago levels through the forseeable future. The platinum-group metal supply situation is particularly encouraging as South Africa continues to expand output to meet demand. Also worth noting in platinum: By 1990, as much as 200,000 oz of the metal could be recycled from used auto catalytic converters. ***PW***

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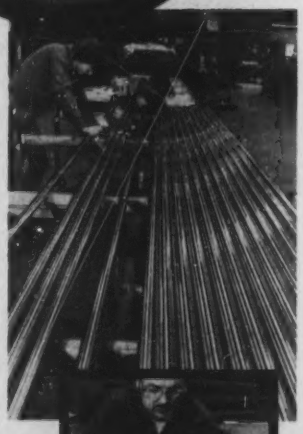

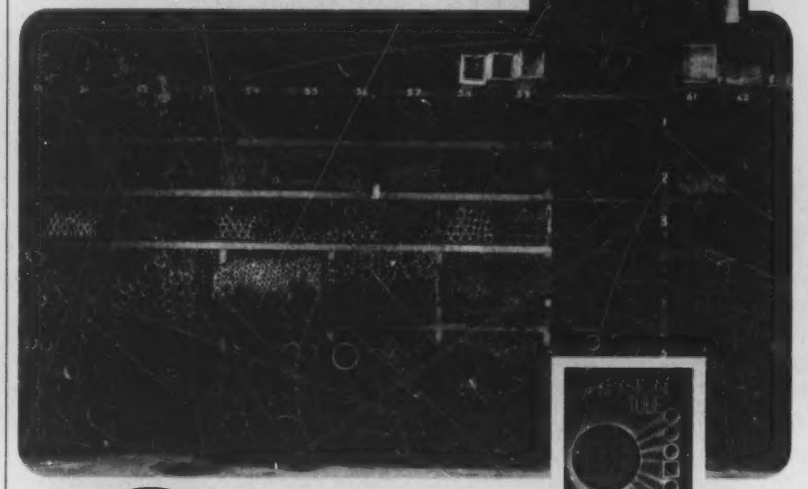

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